

Idaho Economic Forecast

C.L. "Butch" Otter, Governor

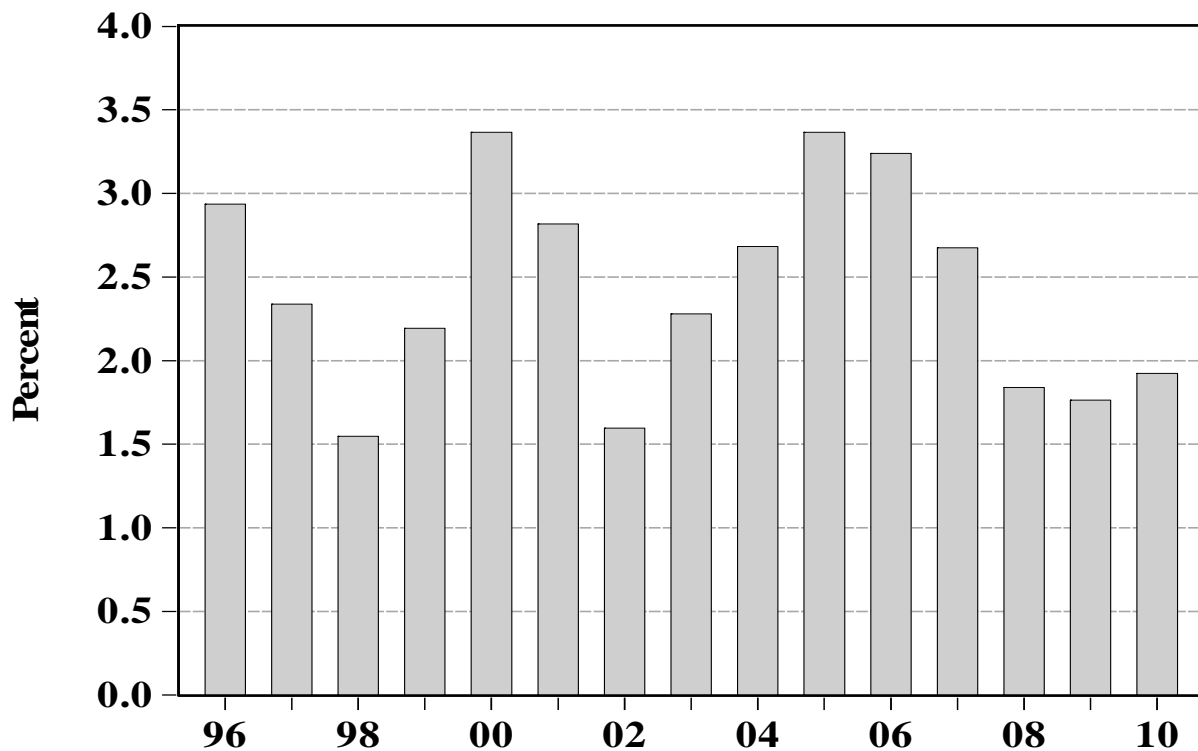
Division of Financial Management

Vol. XXIX, No. 4
October 2007

ISSN 8756-1840

- Forecast 2007-2010
- As Boomers Slow Down, So Might the Economy
- Alternative Forecasts

Consumer Price Inflation



Source: Global Insight

**IDAHO
ECONOMIC
FORECAST
2007 - 2010**

State of Idaho
C.L. “BUTCH” OTTER
Governor

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10-07/385/010200-180-4001

PREFACE

Idaho's economy continues to grow and evolve as it enters the 21st Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded every year and has consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit card companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. The continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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INTRODUCTION

The national forecast presented in this publication is the October 2007 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the July 2007 Global Insight baseline national forecast.

The recent history and forecast for inflation, as measured by the consumer price index is summarized in the chart on the cover of the *Forecast*. It shows consumer inflation is expected to rise 2.7% in 2007, 1.8% in both 2008 and 2009, and 1.9% in 2010. The core inflation (all items less food and energy) rate is expected to be 2.3% this year, 1.8% next year, 1.8% in 2009, and 2.0% in 2010.

FEATURE

This *Forecast's* feature article is entitled, "As the Boomers Slow Down, So Might the Economy." It was written by Kevin L. Kliesen, who is an Associate Economist with the Federal Reserve Bank of St. Louis. Mr. Kliesen points out that countless studies have tried to estimate the fiscal implications of the pending retirement of this generation. Perhaps less known to the public are the implications for U.S. labor markets of retiring baby boomers and, thus, the future growth rates of real GDP. In order to explore these consequences, he uses a standard growth accounting framework.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1993 to 2010 and for every quarter from 2005 through 2010. The solution of the Idaho Economic Model (IEM) for this forecast begins with the third quarter of 2007.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

CHANGES

The Idaho Department of Labor provided monthly historical employment data that was seasonally adjusted and converted to a quarterly frequency by the Idaho Division of Financial Management (DFM). These adjusted data include final employment numbers through the first quarter of this year and estimates for the second quarter. These data show Idaho nonfarm employment grew slower than had been anticipated the first half of this year. In July, DFM predicted Idaho nonfarm employment would grow at a 4.4% annual pace in the first quarter of 2007. The new data show it expanded at a 3.9% clip. There is a larger difference in the following quarter. The July 2007 forecast showed jobs growing at a 0.5% clip in the second quarter of 2007, but the most recent estimate showed it actually decreased at a 1.9% annual pace. As a result, there were an estimated 648,520 nonfarm jobs at the end of this year's first half, compared to 653,044 in the previous forecast—a 0.7% difference.

The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) September 20, 2007 estimates of Idaho quarterly personal income through the second quarter of 2007. The quarterly estimates

were revised back through the first quarter of 2004. The BEA will publish its next round of Idaho quarterly personal income estimates on December 19, 2007.

The *Idaho Economic Forecast* is available on the Internet at http://dfm.idaho.gov/Publications/Econ_Publications.html. Readers with any questions should contact Derek Santos at (208) 854-3070 or at dsantos@dfm.idaho.gov.

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